



REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA-07-11

INTERNAL ACCOUNTING
AND
ADMINISTRATIVE CONTROL AUDIT
CASH DISBURSEMENTS CYCLE

NOVEMBER 2009



Memorandum

To: H. Carriker, Deputy Director
Administration Division

Date: November 3, 2009

From: Brian A. Kwake, Chief
Department of Fish and Game

Audit Control Number
WA-07-11

Subject: Audit Report – Cash Disbursements Cycle

As mandated by the Financial Integrity and State Manager's Accountability Act (FISMA) and the State Administrative Manual (SAM) Section 20060, attached is the final audit report of the Department of Fish and Game's (Department) cash disbursements cycle for the period July 1, 2007 through June 30, 2009. The audit was conducted under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department. This audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the Government Code, Section 1236.

The Department's response to the report generally agrees with our audit findings and recommendations. The Audits Branch (AB) incorporated the Department's response as Attachment A to this report.

As part of the AB's follow-up process, within six months of the date of this report, please submit a separate report to the AB on the status of the Department's corrective actions.

We would like to thank the Administrative Services Branch staff for their time and cooperation. Should you have any questions, please contact Ky Nguyen, or myself, at (916) 445-3367.

Attachment

cc: J. McCamman
C. Jones
H. Kiyan
W. Fong
Audit File

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SUMMARY

The Department of Fish and Game's (Department) Audits Branch (AB) performed an audit of the Department's cash disbursements cycle. The audit was conducted to determine whether internal accounting and administrative controls over the cash disbursements cycle are adequate, that procedures are established for the cash disbursements process, adequate safeguards exist over check signing activities, cash disbursement duties are clearly defined, cash disbursements are properly authorized in accordance with State laws and regulations, cash disbursement transactions are correctly recorded in the accounting records and accountability is maintained, and subsidiary records are reconciled with control accounts and bank statements. Our audit found the internal control structure over the cash disbursements cycle to be adequate; except for the following areas:

- No supervisory review of Voyager fuel credit card usage prior to payment;
- Airline ticket purchase review can be improved;
- Lapse in completing monthly reconciliation for plan of financial adjustments;
and
- Some plan of financial adjustments were prepared for multiple months.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

On July 6, 2006, the AB issued audit report number WA 05-06 on the Department's cash disbursement cycle. We followed-up on the findings in this report to determine if the prior findings had been fully resolved. The findings related to improper cash disbursement register entries, stale dated checks not processed timely, excess transfers of funds through the Plan of Financial Adjustment (PFA) process, inadequate supporting documentation for some PFAs, PFA journal entry errors, and the PFA desk manual was not current. Based on our follow-up, we determined that the Department adequately resolved the prior audit findings.

BACKGROUND

To ensure that State agency internal control systems are in place and operative, the Legislature enacted "The Financial Integrity and State Manager's Accountability Act (FISMA) of 1983" (Government Code Sections 13400 – 13407). FISMA places the responsibility for establishing and maintaining an agency's system of internal accounting and administrative controls with the agency head. State agencies are required to review their agencies' internal control structure every two years. Accordingly, as part of the continuing internal control audit requirement, the Department's cash disbursements cycle was selected for audit.

California Government Code (CGC), Section 13403, states that the elements of a satisfactory system of internal accounting and administrative controls include:

- Proper segregation of duties to safeguard State assets;
- Limiting access to State assets to authorized personnel who require those assets in the performance of their assigned duties;
- An adequate system of authorization and record keeping to provide effective accounting control over assets, liabilities, revenues, and expenditures;
- An established system of practices to be followed in performance of duties and functions;
- Hiring qualified personnel commensurate with their responsibilities; and
- An effective system of internal review.

Per CGC Section 1236, internal accounting and administrative control audits will be conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc. Lastly, the Department of Finance (DOF), Office of State Audits and Evaluations (OSAE) recommend the use of their *Audit Guide for the Evaluation of Internal Controls* to meet the internal accounting and administrative control auditing requirement.

SCOPE, METHODOLOGY, AND OBJECTIVES

The AB audited the Department's cash disbursements cycle internal accounting and administrative controls for the period July 1, 2007 through June 30, 2009. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

Using the DOF-OSAE's *Audit Guide for the Evaluation of Internal Controls*, the following procedures were performed during the audit: interviews of key personnel; the completion of checklists and internal control questionnaires; identifying internal accounting and administrative controls strengths and weaknesses; the review of applicable laws and regulations; the performance of transaction testing; the analysis of supporting documents, forms, and reports; and other audit procedures as required.

The objectives of the audit were to provide the Department's management with reasonable, but not absolute, assurance that:

- Procedures are established for cash disbursements and adequate safeguards exist over check signing activities;
- Duties are clearly defined and adequate separation of duties exists over cash disbursements;
- Cash disbursements are authorized in accordance with State laws and regulations;
- Cash disbursement transactions are correctly recorded in the accounting records and accountability is maintained; and
- Subsidiary records are promptly reconciled with control accounts and bank statements.

CONCLUSION

In our opinion, the Department has properly supported the cash disbursements cycle transactions for the period July 1, 2007 through June 30, 2009. The internal accounting and administrative control structure over the cash disbursements cycle in effect at June 30, 2009, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the processing of transactions within the cash disbursements cycle, except for the weaknesses described in the Findings and Recommendations Section of this audit report.



Brian A. Kwake, Chief
Audits Branch

November 3, 2009

Audit Staff: Ky Nguyen

FINDINGS

AND

RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS

FINDING 1 NO SUPERVISORY REVIEW OF VOYAGER FUEL CREDIT CARD USAGE PRIOR TO PAYMENT

There is no supervisory review of Voyager fuel credit card usage prior to payment of the credit cards. Voyager fuel credit cards are used by Department employees to purchase fuel for State vehicles or other State motor equipment. The Department has approximately 2,300 Voyager fuel credit cards in circulation accounting for an estimated \$4.1 million in purchases annually. Voyager fuel credit cards are used primarily to procure fuel, but sometimes other incidental items were also purchased. The Department purchases approximately 1.3 million gallons of fuel annually using Voyager fuel credit cards. Up until February 2009, the Department did not have a system to allow supervisors to easily review usage.

Since February 2009, the Department's Business Information System (BIS) was modified to include usage reports. These usage reports give details as to time and date of transaction, product purchased, cost, merchant name and address, odometer readings, and vehicle identification. Before February 2009, this information was not available.

The California Government Code (CGC), Section 13403, requires a satisfactory system of internal accounting and administrative controls include a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

RECOMMENDATION:

The Department should require supervisors to randomly check credit card charges against travel logs in vehicles and other documents as necessary to ensure the Voyager fuel credit cards are only used for allowable purchases. These reviews should be provided to the Accounting Services Branch (ASB) prior to authorizing payment of the Voyager fuel credit cards.

Department Response:

The new Business Information System allows Region and Division supervisors to view and approve reports for their respective Regions or Divisions. ASB in conjunction with the Business Services Branch are working together to develop procedures to validate purchases made with the Voyager card. In addition, in July's 2009 Calendar for Fleet Coordinators, instructions were provided to review and assign reports to Administrative Officers. Also, ASB's staff reviews and researches purchases for inconsistencies and abnormal amounts.

AB Comments:

The ASB's response satisfactorily addresses our recommendation.

FINDING 2

AIRLINE TICKET PURCHASE REVIEW CAN BE IMPROVED

State Business travels are documented on the Department's Travel Expense Claims (TEC). Airline ticket purchases are listed on the TECs, but the airline ticket purchase supporting documentation is received separately. The TECs go through a system of review to ensure that travels are for legitimate State business and invoices from American Express for airline ticket purchases are reviewed by ASB for travel anomalies (travel on weekends, out of state travel, etc.) prior to payment; however, the Department does not match the actual airline ticket documentation to the individual TECs. Random checks of what appears to be normal airline ticket purchases are not reviewed. Hence, certain improper airline ticket purchases could go undetected.

The CGC Section 13403, requires a satisfactory system of internal accounting and administrative controls include a system of record keeping that is adequate to provide effective

accounting control over assets, liabilities, revenues, and expenditures.

RECOMMENDATION

We recommend the Department expand its review procedures to include random checks of what appears to be legitimate airline tickets purchased with American Express credit cards against individual TECs to ensure travels were for actual State business purposes and airline ticket purchases were listed on the TECs. This can be a post review due to timing differences between the TEC preparation and American Express billing cycles.

Department
Response:

The Accounting Services Branch is currently developing procedures to reconcile Travel Expense Claims (TEC) against the American Express invoice. In addition, ASB's staff audits for abnormal charges, identifies frequent travelers, documents support for in-state and out-of-state travel, and verifies travel was completed during the normal work week. The Department also recently implemented the CalATERS system, an automated TEC processing system. The system requires employees to submit a travel itinerary along with their TECs for ASB staff to audit and process.

AB Comments:

The ASB's response satisfactorily addresses our recommendation.

FINDING 3

LAPSE IN COMPLETING MONTHLY RECONCILIATION FOR PLAN OF FINANCIAL ADJUSTMENTS

The Department had a lapse in completing the monthly reconciliation of the plan of financial adjustments (PFA), because of a staff retirement. The State Administrative Manual (SAM) Section 8452 defines a PFA as a formal plan whereby a State agency may make financial adjustments between funding sources for services rendered, supplies used, or for a proper proportion of other expenses. SAM Section 7901 requires reconciliations will be prepared monthly within 30 days of the preceding month.

Monthly PFA reconciliations are necessary to ensure the integrity of accounting entries. Failure to perform reconciliations increases the risk of errors and irregularities going undetected which may affect the reliability of the Department's financial data.

RECOMMENDATION

Even during times of staff turnover, we recommend the Department continue to review and reconcile PFA accounts monthly in accordance with SAM.

Department
Response:

During the period under view, ASB sustained staff turnover and staff absences that did not permit a monthly preparation and reconciliation of the PFA spreadsheet. Although this spreadsheet was not maintained timely, the staff did reconcile the PFA's based on the Calstars BO4 report as part of their fund reconciliations. In addition, staff who were assigned to prepare PFA's during this time, also reconciled the PFA's based on the B04 report.

New procedures were also implemented during this time to better track the PFA's being prepared monthly. These procedures utilized the Q22 reports with postings of the PFA document number on the amounts that were processed. With the recent hiring of staff, we are cross training in the area of PFA's, and updating written procedures including previously implemented procedures.

AB Comments:

The ASB's response satisfactorily addresses our recommendation.

FINDING 4

SOME PLAN OF FINANCIAL ADJUSTMENTS WERE PREPARED FOR MULTIPLE MONTHS

As listed below, a review of the Department's PFA Letter Log sheet disclosed some PFAs were prepared for multiple months.

PFA Letter Number	Transaction Covers Period	Dollar Amount
PFA 08-161	July through September 08	46,003.76
PFA 08-191	July through October 2008	44,709.44
PFA 08-192	July through October 2008	821,700.07
PFA 08-190	July through November 2008	1,134,841.30

According to SAM Section 8452, PFAs are not intended to be a means of providing working capital advances, or overcoming cash flow problems and if used are to be made on a monthly basis.

RECOMMENDATION

We recommend the Department prepare PFAs on a monthly basis in accordance with SAM Section 8452.

Department Response:

We agree the PFA's should be submitted to the State Controller's Office (SCO) on a monthly basis as stated in the State Administrative Manual. However, during year-end closing months, in particular, staff was involved in preparing the year-end financial statements and delayed completing the PFA's until the year-end adjustments were made and accounts were closed.

In regards to two PFA's noted in the audit report, one (PFA 08-190) was involving Federal Funds. In accordance with our PFA letter to SCO and approved by the Department of Finance, we may submit Federal PFA's upon receipt, which this PFA was processed under. On PFA 08-192 (rev), the PFA involved Proposition 84 bond funds. At that time, AB 55 loan monies were undergoing a change in the processing of bond PFA's. A revision was made to submit the PFA under the new guidelines issued at that time. However, staff has been submitting subsequent PFA's on a monthly basis.

AB Comments:

The ASB's response satisfactorily addresses our recommendation.

ATTACHMENT A

DEPARTMENT'S RESPONSE

Memorandum

Date: October 6, 2009

To: Brian A. Kwake, Chief
Audits Branch
Department of Fish and Game

From: Harriet Kiyon 
Assistant Deputy Director, Fiscal
Department of Fish and Game

Subject: Internal Accounting and Administrative Control Audit Response – Cash
Disbursements Cycle – W-07-11

We appreciate the opportunity to respond to the Audit Report dated August 11, 2009, regarding the Internal Accounting and Administrative Control Audit Cash Disbursements Cycle. As stated in your opinion, the accounting and administrative controls, taken as a whole, were sufficient to meet its objectives.

In addition, we agree with your findings and recommendations relative to the accounting functions. The Department will continue to take action to implement them where remaining issues exist.

Finding 1 – NO SUPERVISORY REVIEW OF VOYAGER FUEL CREDIT CARD USAGE PRIOR TO PAYMENT

Recommendation

The Department should require supervisors to randomly check credit card charges against travel logs in vehicles and other documents as necessary to ensure the Voyager fuel credit cards are only used for allowable purchases. These reviews should be provided to the Accounting Services Branch (ASB) prior to authorizing payment of the Voyager fuel credit cards.

Response

The new Business Information System allows Region and Division supervisors to view and approve reports for their respective Regions or Divisions. ASB in conjunction with the Business Service Branch are working together to develop procedures to validate purchases made with the Voyager card.

In addition, in July's 2009 Calendar for Fleet Coordinators, instructions were provided to review and assign reports to Administrative Officers. Also, ASB's staff reviews and researches purchases for inconsistencies and abnormal amounts.

Finding 2 – AIRLINE TICKET PURCHASE REVIEW CAN BE IMPROVED

Recommendation

We recommend the Department expand its review procedures to include random checks of what appears to be legitimate airline tickets purchased with American Express credit cards against individual TECs to ensure travels were for actual State business purposes and airline ticket purchases were listed on the TECs. This can be a post review due to timing differences between the TEC preparation and American Express billing cycles.

Response

The Accounting Services Branch is currently developing procedures to reconcile Travel Expense Claims (TEC) against the American Express invoice. In addition ASB's staff audits for abnormal charges, identifies frequent travelers, documents support for in-state and out-of-state travel, and verifies travel was completed during the normal work week. The Department also recently implemented the CalATERS system, an automated TEC processing system. The system requires employees to submit a travel itinerary along with their TECs for ASB staff to audit and process.

Finding 3 – LAPSE IN COMPLETING MONTHLY RECONCILIATION FOR PLAN OF FINANCIAL ADJUSTMENTS

Recommendation

Even during times of staff turnover, we recommend the Department continue to review and reconcile PFA accounts monthly in accordance with SAM.

Response

During the period under review, ASB sustained staff turnover and staff absences that did not permit a monthly preparation and reconciliation of the PFA spreadsheet. Although this spreadsheet was not maintained timely, the staff did reconcile the PFA's based on the Calstars BO4 report as part of their fund reconciliations. In addition, staff who were assigned to prepare PFA's during this time, also reconciled the PFA's based on the BO4 report.

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hiring of staff, we are cross training in the area of PFA's, and updating written procedures including previously implemented procedures.

Finding 4 – SOME PLAN OF FINANCIAL ADJUSTMENTS WERE PREPARED FOR MULTIPLE MONTHS

Recommendation

We recommend the Department prepare PFAs on a monthly basis in accordance with SAM Section 8452.

Response

We agree the PFA's should be submitted to the State Controller's Office (SCO) on a monthly basis as stated in the State Administrative Manual. However, during year-end closing months, in particular, staff was involved in preparing the year-end financial statements and delayed completing the PFA's until the year-end adjustments were made and accounts were closed.

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We thank you for the thorough review of our cash disbursement cycle and for identifying areas of improvement. If you have any questions, or need additional information, please contact Will Fong, Chief of ASB, at (916) 653-4895.

cc: Cynde Jones, Assistant Deputy Director, Administration
Will Fong, Chief, Accounting Services Branch